



June 15, 2007

Mr. Winston Hickox, Chair
California Market Advisory Committee
California Environmental Protection Agency
1001 J Street
Sacramento, CA 95814

**RE: CALCHAMBER COMMENTS ON THE MARKET ADVISORY COMMITTEE
DRAFT REPORT**

Dear Mr. Hickox and Members of the Market Advisory Committee:

The California Chamber of Commerce, the state's largest business advocate, representing over 15,000 members is an active voice in the implementation of AB 32. Since the signing of AB 32, CalChamber has been committed to finding the best solutions to reduce our global greenhouse gas emissions without hurting the state's economy or driving businesses and their emissions elsewhere. To be a true leader in this fight against global warming, we believe the state should promote its best practices and programs on a global scale.

A key factor to expanding our reach across the globe is in creating a cap and trade market that will give businesses the flexibility to reduce their emissions and continue plans for expansion and development. Like you, the CalChamber believes a carefully, well-designed cap and trade program is vital to achieving the ambitious goals of AB 32. We have created the following list of principles the CalChamber recognizes as the fundamental objectives for any sustainable cap and trade program.

CalChamber Objectives for a Sustainable Market Strategy

- 1) In order to make the market as large as possible, it should include all major sources of greenhouse gas emissions and should extend to all sectors.
- 2) Allowances should be distributed based on a "free allocation" method so businesses can secure investment for the future and afford to direct funds to cleaner practices.
- 3) The market should include transparent price signals for buyers and sellers.
- 4) The market should allow for the banking of allowances and credits across time.
- 5) Any market strategy should allow for a broad use of offsets both in and out of state, including international projects.
- 6) All offset projects should be fully certified by state regulators to ensure that reductions meet strict protocols for verification.

- 7) Early action credit should be awarded to those sources and entities that have reduced their greenhouse gas footprint prior to any regulatory requirements.
- 8) The emissions trading market should include a safety valve, or other cost containment mechanisms to mitigate the costs or unintended consequences in the early years pending transition to new technology.

Based on these eight objectives, we offer the following analysis and comments of the Draft Market Advisory Report released June 1, 2007.

Scope of the Program

We believe that the cap and trade program should be as large as possible and should include all sectors. This structure will maximize liquidity and will encourage further reduction of greenhouse gas emissions. The responsibility for reducing greenhouse gas emissions should be shared by the entire economy. No sector should carry a disproportionate burden for others.

Allowance Distribution

Like any regulatory program, the creation of a cap and trade program for California will be a challenge. The two critical features for such programs are: 1) it minimizes the cost for businesses to comply with the cap by giving them added flexibility and 2) it maximizes the potential for global reductions in greenhouse gas emissions.

In order to ensure the cap and trade program in fact contains these features, the state must be extremely careful in how it distributes allowances in the marketplace. Currently, businesses do not pay to emit greenhouse gas emissions. If regulators choose to move to a 100% auction as you propose in your report, businesses will not only be required to bear the cost of reducing their emissions to their 1990 levels, but will be charged for every ton they emit whether below the 1990 baseline or not. This system, although well intentioned, will create further uncertainty in the marketplace and would exponentially raise the cost of doing business in California for all regulated sources. Therefore, we disagree with the Market Advisory Committee's (MAC's) recommendation on moving toward an auction system. The CalChamber believes the cap and trade system will garner the most players, reductions and participation through a "free allocation" system where businesses are regulated by a hard cap with the ability to invest their funds into cleaner practices and technologies that will sustain our growth and remain environmentally friendly at the same time.

Attention to Early Action Credit

A number of businesses are currently employing clean technologies to reduce their carbon footprint and have been doing so for years. It is only fair that these businesses are rewarded for their commitment to the environment and are given appropriate credit for their reductions made prior to any regulatory requirements. Although the MAC report recognizes the importance of early action and recommends a design that would promote industry initiative to reduce their emissions, we believe the cap and trade system should be designed with a concrete "early action credit" mechanism to ensure innovation and to incentivize industries to adopt new strategies.

The Use of Offsets to meet AB 32 goals and beyond

The CalChamber is happy to see the MAC's positive comments on the use of offsets to reduce global emissions. Similar to the MAC's review, the CalChamber believes that we should "reject geographic or quantitative limitations" and maximize the reductions we

can achieve across the globe. We also agree that all offset projects should undergo a strict certification process to ensure a credible program that is helping to garner real reductions of global greenhouse gas emissions. Our membership is in strong support of exploring the offset programs that already exist while generating new opportunities to ensure California is leading the way in creating an offset program that the rest of the United States and nations across the world have faith in.

The Inclusion of a Safety Valve

The CalChamber disagrees with the report's finding that there is no need for a safety valve. This mechanism serves as an emergency brake in case the state's economy is in jeopardy due to an extremely high market price. The purpose of the safety valve is not to serve as a mechanism for industries to escape from their obligations to the cap, but should be seen as a safeguard for the state's consumers, businesses, and economy.

Linkages to Other Systems

Because global warming is inherently a global issue, it makes good sense to foresee possible linkages to systems that are currently in place and those programs that are beginning to develop around the world. We agree with the MAC report recommendations that such linkages should be encouraged and promoted to increase market liquidity and the cost-effectiveness of the program as a whole. California will have to work with other states and nations to ensure that reductions are real and verifiable, regardless of where they are taking place. The state should also use its knowledge and expertise to help other states develop a platform that is easily linkable to the California system.

The CalChamber would like to thank the Market Advisory Committee for creating such a comprehensive and thoughtful report. Your work is very much appreciated and the CalChamber would like to continue this dialogue with all of you in the future and hope your expertise will continue to be used throughout this implementation period. If you have any questions, feel free to contact me at (916) 444-6670.

Sincerely,

Amisha Patel
Policy Advocate

cc: Members of the California Market Advisory Committee
Linda Adams, Secretary of CalEPA
Dan Skopec, Undersecretary, CalEPA
Eileen Wenger Tutt, Assistant Secretary for Climate Change Initiative, CalEPA
Catherine Witherspoon, Executive Officer, CARB
Chuck Shulock, Program Manager, CARB

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